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National Association of Purchasing Management

Report On Business®

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Inventory Levels Decline Dramatically

Price Increases Outweigh Decreases 3 to 1

Purchasing Index–Slight Decline

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

November Report

The moderate growth of the economy continued in November, say the nation's purchasing managers in their latest **Report on Business.** Production levels were up slightly over October. New orders continued their slow increase. Vendor performance was virtually unchanged but inventory and employment levels were significantly lower. For the third consecutive month, more purchasers reported higher rather than lower prices.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "In November, the economy continued on what has been a moderate but stable path of expansion. The advance of new orders suggests a healthy level of production in January, after the traditional seasonal drop that can be expected in December."

The **Purchasing Managers' Composite Index** declined fractionally to 51.3% from 51.9% in October. While the index has dipped below 50% in three of the eleven months of 1986, it is interesting to note that the average of each quarter has been virtually the same (first quarter—51.2%, second quarter—50.9%, third quarter—50.3%, October to November—51.6%). A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The low level of employment declined even further in November. The 32% of members reporting lower employment is the highest since January 1983 (36%).

Employment %	Higher	Same	Lower	Net Differ.
November	9	59	32	−23
October	6	72	22	−16
September	13	60	27	−14

Buying Policy

Lead times for production materials shortened slightly, perhaps a reflection of continued good vendor delivery performance and lower inventories. The number of members reporting lead times of 30 days or less increased to 41% from 38% in October. Lead times for capital expenditures declined also as the number of members reporting lead times of 6 months and over decreased to 55% from 57% in October and 60% in September, a decided reversal. Maintenance, repair, and operating (MRO) supplies were able to be obtained faster. The 48% of members reporting buying hand-to-mouth is the highest since September 1985 (51%).

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
November	17	41	24	13	5
October	17	38	24	14	7
September	18	39	23	14	6
MRO Supplies %					
November	48	39	9	3	1
October	45	44	7	3	1
September	44	43	6	7	0
Capital Expenditures %					
November	10	5	11	19	55
October	14	3	8	18	57
September	16	3	7	14	60

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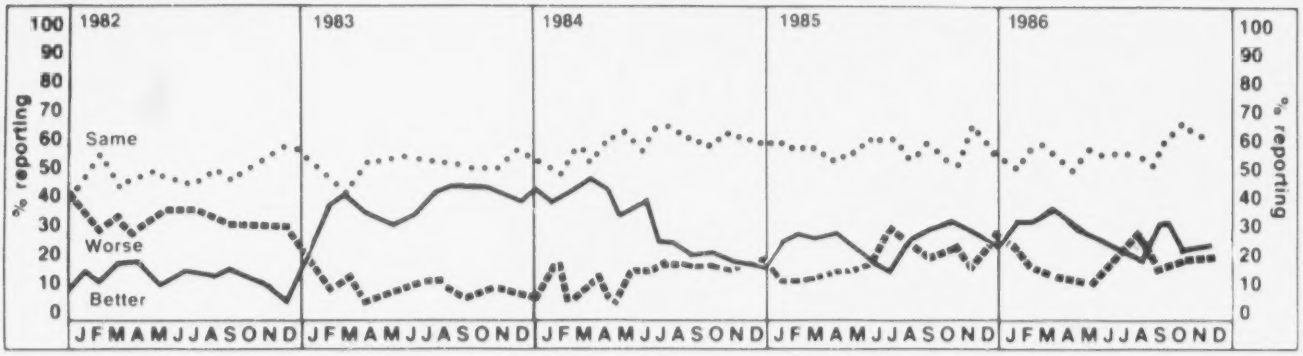
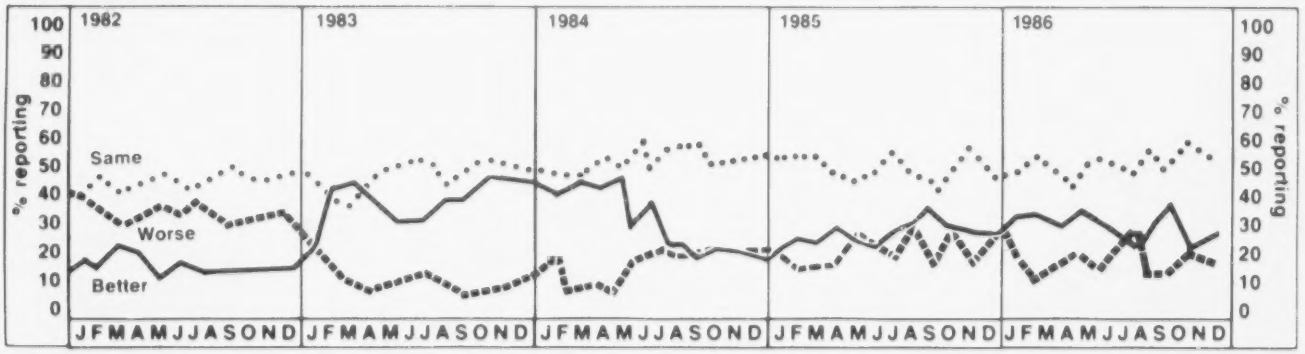
Production



As anticipated last month, production in November remained favorable with the rate of growth (+5 net difference both months) unchanged.

Production %	Better	Same	Worse	Net
November	22	61	17	+ 5
October	20	65	15	+ 5
September	27	60	13	+14

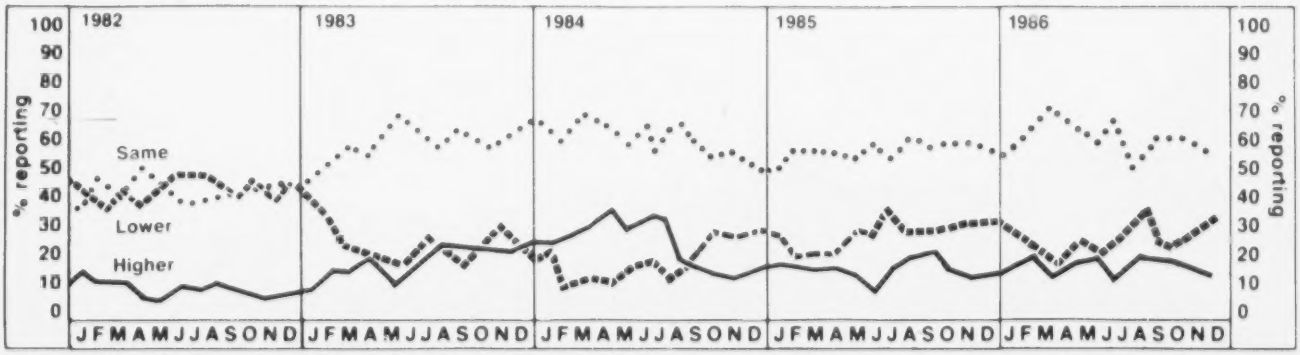
New Orders



November marks the fourth consecutive month that new orders has expanded. November's growth (+10 net difference) is greater than October (+2) and would seem to point to healthy production in January, after an anticipated seasonal drop in December.

New Orders %	Better	Same	Worse	Net
November	28	54	18	+10
October	22	58	20	+ 2
September	35	50	15	+20

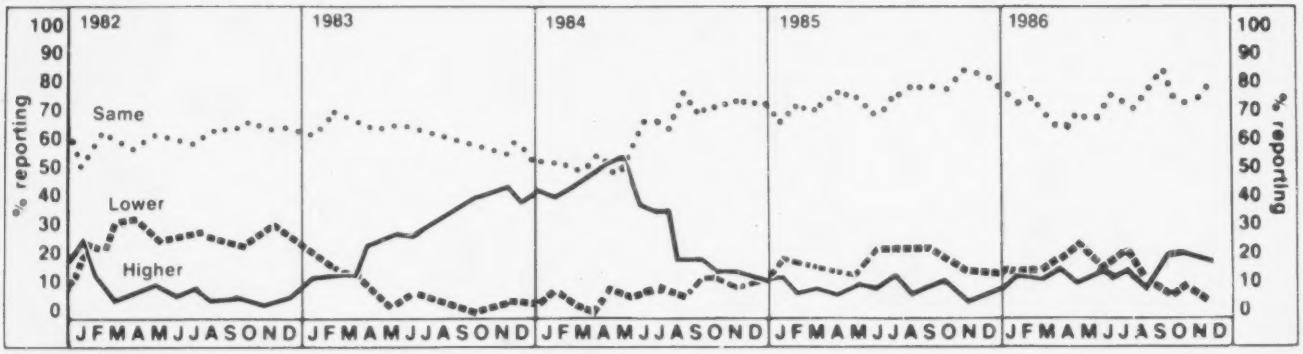
Inventories



Inventory levels declined dramatically in November. While a seasonal drop in inventories is quite often expected in November/December, the rate of this month's fall is significant. The 34% reporting lower inventory in November is the most since January 1983 (40%). (The figures in last month's October Report had been transposed, please note the correct figures for the last four months.)

Inventories %	Higher	Same	Lower	Net
November	11	55	34	−23
October	17	58	25	− 8
September	18	61	21	− 3
August	18	58	24	− 6

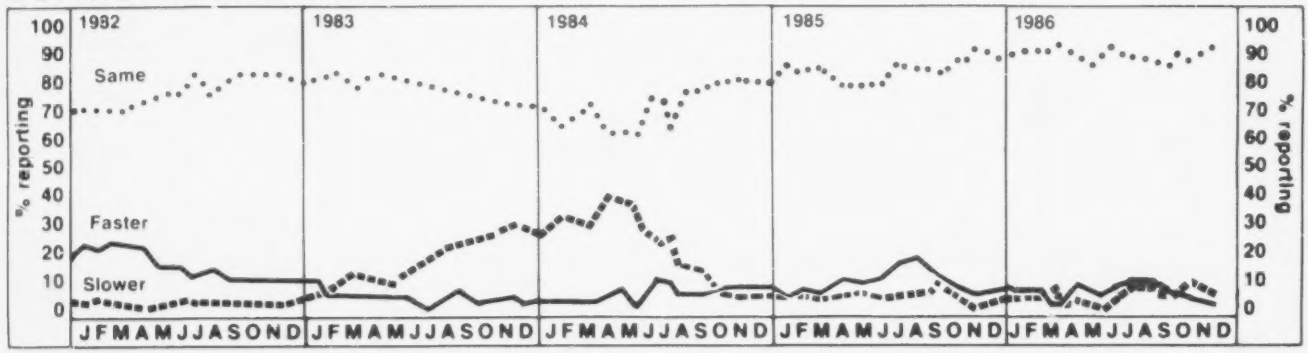
Prices



November marks the third consecutive month that members reporting higher prices exceeded those reporting lower prices by a ratio of over three to one. The 5% reporting lower prices is the lowest to do so since August 1984 (also 5%).

Prices %	Higher	Same	Lower	Net
November	17	78	5	+12
October	20	73	7	+13
September	19	75	6	+13

Vendor Deliveries



The speed of vendor deliveries continued to hold in November at levels which have varied only slightly during 1986. The 3% reporting faster deliveries is the lowest since May 1986 (2%).

Vendor Deliveries %	Faster	Same	Slower	Net
November	3	91	6	– 3
October	6	86	8	– 2
September	5	90	5	0

Specific Commodity Changes

November marks the eighth time in the past nine months that titanium dioxide was reported in short supply. However, it remains the only item reported in short supply over the last 22 months. Corrugated shipping containers continued to be reported higher in price for the eighth consecutive month. Caustic soda was reported up in price for the third consecutive month. A variety of other commodities were also reported higher in price — polyethylene, cotton goods, vegetable oils, zinc, and for the third consecutive month, steel.

UP in Price: Corrugated shipping containers, caustic soda (used heavily in paper making and petroleum refining), polyethylene (used in making plastic products), cotton goods, vegetable oils (used in food processing), steel, and zinc

DOWN in Price: Aluminum, gasoline

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Jan. 5, 1987.

Commodity Reports

Steel

Prepared by the N.A.P.M. Steel Committee; chairman, Daniel R. Krause, C.P.M., The Budd Company, Troy, MI.

As 1986 nears its end, we find the domestic steel industry still in a state of transition. The problems of the past (over capacity, competitive pressures from foreign producers, and the need to modernize), are not completely resolved, but considerable progress has been made these last two years.

This year, labor relations between the producers and the work force continue under stress, but with no major confrontations taking place that could endanger a continued supply of steel to the domestic consumer. More specifically, the shut-down of USX has not had a severe impact on the domestic supply of steel, and there are no reported shortages of steel except for electro-galvanized sheets, used primarily by the automotive and appliance industries. The limitation here is not because of raw material but that the electro-galvanizing facilities (many of which are new within the last two years) are not running to their rated capacity.

The world steel capacity continues to exceed the demand, and in the face of this over-capacity, many third world producers are upgrading their facilities with continuous casters to maintain their competitive position. We can anticipate, in spite of the Voluntary Restraint Agreements worked out by our government and many of the steel producing countries in the world, that these countries will aggressively pursue any opportunity in the U.S. market to increase their market share.

The major domestic mills are continuing their programs to sell or close down their marginal facilities, while on the other hand, the mini-mills are continuing to expand their product offerings.

The advantage which some offshore producers of steel had in terms of the product quality, when compared to the domestic producers, has largely been eliminated by the continuing improvement in the quality level of steel produced in the U.S. The push for this higher quality level is most apparent in the sheet products being shipped into the automotive, appliance, and office furniture industries, where surface finish is very important.

Although the major mills have announced a 3% increase in prices for hot-rolled and cold-rolled sheets, effective January 1, 1987, there is reasonable doubt, amongst many large users of these products, that this increase will indeed take place. The alert steel buyer will continue to work closely with his major suppliers to ensure a continuing supply of steel in the coming months, but, more importantly, to ensure that the pricing levels of today can be continued well into 1987.

Energy

Prepared by the N.A.P.M. Energy Committee; chairman, Howard T. Perley, C.P.M., International Paper Company, New York, NY.

Petroleum Products

OPEC agreed to a two-month extension of crude oil production quotas. Future prices showed little reaction, and moderately lower crude prices are expected in early 1987. Average crude prices should change little in the next few years. Distillates will continue to track crude prices, but exhibit their usual seasonal fluctuations. User inventories should be increased as needed to guard against winter supply interruptions. In some areas, No. 6 fuel oil is still competitive with natural gas, so 1986 demand is up. Expect demand to stay strong this winter with prices near 85% of crude. (James H. Kedrowski, Aluminum Company of America, Pittsburgh, PA)

Natural Gas

More end-users are buying directly from producers with transportation by interstate pipelines. Most purchases are short term, and since spot prices are apparently bottoming out, it could be a good time to fix 1987 prices.

Most interstate pipelines transport on an interruptible basis and users rely on local utilities for backup when needed. As local utilities reduce their long-term purchase contracts, backup service, if still available, may be costly; although direct purchases can bring big cost savings, they are not risk-free. (Ian G. Mackenzie, Corning Glass Works, Corning, NY)

Coal

Soft markets are expected to continue through the first half of 1987 due to weak demand and lower user inventories, so spot buying and favorable incoming rail rates should still be pursued. Acid rain may be a high priority legislative issue in 1987 and should be watched closely. (W. T. Robertson, Jr., Duke Power Company, Charlotte, NC)

Energy Technology

A major milestone in the development of fusion energy was recently achieved at Princeton's Plasma Physics Laboratory, where a temperature of 392 million degrees Fahrenheit was generated for one fifth of a second. This temperature — ten times hotter than the sun's core — is the highest ever achieved in a laboratory. This temperature must be sustained for fusion power to become a source of energy. Fusion generating plants, using sea water as fuel, could provide virtually unlimited supplies of energy with no radioactive byproducts. (Thomas V. Doyle, Westinghouse Electric Corporation, Pittsburgh, PA)